COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY d/b/a AMERICAN ELECTRIC POWER TO ASSESS A SURCHARGE UNDER KRS 278.183 TO RECOVER COSTS OF COMPLIANCE WITH THE CLEAN AIR ACT AND THOSE ENVIRONMENTAL REQUIREMENTS WHICH APPLY TO COAL COMBUSTION WASTE AND BY-PRODUCTS	) CASE NO. 96-489

ORDER

The Kentucky Power Company, d/b/a American Electric Power ("Kentucky Power"), the Attorney General's Office ("AG"), and the Kentucky Industrial Utility Customers ("KIUC") filed applications for rehearing of the Commission's May 27, 1997 Order authorizing Kentucky Power an environmental surcharge. The AG and KIUC also filed responses to Kentucky Power's application for rehearing.

Kentucky Power seeks rehearing on six issues. First, Kentucky Power contends that the Commission made several errors of fact and statutory interpretation when it found that Kentucky Power had not adequately demonstrated the reasonableness and cost effectiveness of the installation of low nitrogen oxide ("NOx") burners at Big Sandy Unit 2 ("Unit 2"). In excluding the low NOx burners at Unit 2, Kentucky Power argues that the Commission has disregarded the Clean Air Act Amendments of 1990 ("CAAA") and the facts concerning the currently available low NOx technology. Kentucky Power quotes several passages from the CAAA, noting that the NOx emission limits are based on the use of low NOx burners. Kentucky Power also cites the decision of the D. C.

Circuit Court in Alabama Power Co. v. U.S. E.P.A., 40 F.3d 450 (D.C. Circuit, 1994) in support of its contention that the use of low NOx burners was the preferred technology option. Kentucky Power claims that requiring a technology options analysis in this case would have been inappropriate, arguably imprudent, and a wasteful utilization of its resources to perform an analysis to reach a conclusion which has already been reached legislatively and judicially.

Kentucky Power further argues that requiring it to utilize a competitive bidding procedure to secure materials and labor is not a prerequisite for a finding of cost effectiveness. Kentucky Power contends that competitive bidding procedures were not appropriate for the procurement of the low NOx burners under the circumstances in the proceeding. Kentucky Power claims that the Commission has added requirements to KRS 278.183 that go beyond the statute requirements and that KRS 278.183 has now been altered to mean "least cost" rather than "cost effective."

Kentucky Power claims that it placed abundant, relevant evidence in the record in support of the low NOx burners at Unit 2. Kentucky Power argues that, without any suggestion of error or impropriety, the Commission should accept the judgment of the engineering staff at American Electric Power, Inc. ("AEP"), its parent company. Kentucky Power further argues that neither it nor AEP should be required to perform studies to determine that low NOx burners are the lowest cost compliance technology when that is a well-recognized fact in the industry, well-documented in the expert literature, and explicitly recognized in the federal statute, regulations, and case law. Kentucky Power also takes issue with the references in the May 27, 1997 Order concerning the timely disclosure of relevant information concerning the low NOx burners at Unit 2. Kentucky Power urges the Commission to recognize that the decision to purchase and install the low NOx burners at Unit 2, in the manner presented in this proceeding, was reasonable and cost effective.

The Commission is not persuaded by Kentucky Power's arguments. The citations to the CAAA and Alabama Power deal with the establishment of the NOx emission limits and do not require the installation of low NOx burners at every generating unit in the country. Kentucky Power is erroneously relying upon the federal establishment of emission limits, which are based on a particular technology, as sufficient justification for employing that particular technology. Such justification is insufficient when more than one compliance technology exists. The basis for excluding the low NOx burners at Unit 2 was Kentucky Power's failure to perform a cost/benefit analysis or any other evaluation of available compliance options. Absent such information, the Commission is unable to determine the reasonableness and cost-effectiveness of low NOx burners at Unit 2.

The Commission disagrees with Kentucky Power's claim that the May 27, 1997 Order establishes stricter requirements for demonstrating cost effectiveness than required by KRS 278.183. The Commission did not mandate the use of competitive bids, but noted that the bidding procedure for securing the materials for Unit 2 did not conform to AEP's normal and customary bidding procedures. The Commission further found that for the low NOx burners to be installed at the Big Sandy Unit 1 ("Unit 1") in 1998, there will need to be documentation of compliance with AEP's normal and customary bidding procedures. The bidding procedures were established by AEP, not the Commission. Kentucky Power's failure to comply with its own internal bidding procedures negates any presumption of reasonableness that might otherwise exist.

Environmental compliance expenditures may, if the evidence so demonstrates, be found reasonable and cost effective without being the least or lowest cost. Even when competitive bidding is utilized, recognition is properly given to non-price considerations such as the experience and past performance of the bidders. The use of bidding procedures is consistent with the concept of cost effectiveness.

The record in this proceeding supports the Commission's earlier conclusion that Kentucky Power failed to make certain timely disclosures of relevant information. In the Commission's January 13, 1997 Order, Kentucky Power was asked about the decision to "early elect" Unit 2. The response made no mention of the fact that the new low NOx burners had failed to meet the design requirements or that Kentucky Power had accepted a cost reduction rather than have the manufacturer pursue other options to meet the designed NOx limits. This information was not disclosed until the April 2, 1997 hearing.[1]

Despite Kentucky Power's arguments in its application for rehearing, the simple fact remains that there was no cost/benefit analysis to support the early election to install the Unit 2 low NOx burners and there was no evaluation of alternative compliance options. Rehearing is denied on this issue.

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[1] These events, as well as the failure of Kentucky Power to disclose that it did not follow AEP's normal and customary bidding procedures, were clearly identified and referenced to the record in the May 27, 1997 Order. Contrary to Kentucky Power's request for a "further hearing to allow full development of the pertinent issues," these issues were fully developed and documented in the record.

In its second issue, Kentucky Power objects to the Commission's directive that if Kentucky Power chooses to resubmit the Unit 1 low NOx burner project for future inclusion in its compliance plan and surcharge, it will have to present evidence of an options analysis and compliance with AEP normal and customary competitive bidding procedures. Noting similar arguments to those raised for the Unit 2 project, Kentucky Power claims that the Commission's directive is both unfair and illegal. Kentucky Power argues that it will be precluded from being able to satisfy its burden of proof through evidence that demonstrates that a procurement procedure other than competitive bidding is nonetheless reasonable and cost effective.

Kentucky Power has apparently missed the point of the May 27, 1997 Order concerning the Unit 1 low NOx burner project. Kentucky Power has repeatedly stated its intent to follow the same approach for the Unit 1 project as it did for Unit 2 in selecting the technology and procuring materials and labor. As the Commission found the failure to comply with internal bidding procedures did not adequately demonstrate the Unit 2 project was reasonable and cost effective, it should be clear to Kentucky Power that it risks a similar result if it subsequently requests to include the Unit 1 project in the compliance plan and surcharge. The Commission's finding in the May 27, 1997 Order placed Kentucky Power on notice that since it has adopted bidding procedures, the procedures must be followed unless there is sufficient evidence to otherwise demonstrate the reasonableness of the procurement process. Such evidence was not persuasive for Unit 2, and Kentucky Power will need to be aware of its burden to justify Unit 1. As noted above, when a utility has itself adopted competitive bidding requirements for projects of this type, its failure to comply with its own requirements negates any presumption that its actions were reasonable. Rehearing on this issue is denied.

In its third issue, Kentucky Power objects to the Commission's directive that the current period revenue requirement be reduced by emission allowance sale proceeds in each of the first 12 monthly surcharge filings. Kentucky Power argues that offsetting current environmental costs with past emission allowance sale proceeds is patently unfair and constitutes illegal retroactive rate-making. Kentucky Power notes that over the past four years it has incurred environmental expenses which it has not sought to recover. Kentucky Power claims that one reason for not seeking recovery through the surcharge for these costs was that the emission allowance sale proceeds were offsetting those costs. Kentucky Power argues that the Commission's ordered offset prevents it from recovering the current environmental costs it is entitled to recover under KRS 278.183.

The Commission finds that under KRS 278.183, Kentucky Power has the discretion to determine the timing of its application for an environmental surcharge. Any recovery of past environmental costs are not recoverable in the surcharge. Kentucky Power's arguments in its application for rehearing conflict with other evidence and testimony in this proceeding. During the hearing, the Commission specifically asked Kentucky Power why it waited until 1996 to apply for a surcharge. Kentucky Power responded that it and AEP had been undergoing some major reorganizations and that it was presently involved in evaluating rate cases.[2] The argument that emission allowance sale proceeds were used to offset environmental costs, and thus delaying the need to seek a surcharge, was not presented until the filing of Kentucky Power's application for rehearing. The AEP System operating companies did not resolve the treatment of emission allowance sale proceeds until the development and filing with Federal Energy Regulatory Commission ("FERC") of Modification No. 1 to the Interim Allowance Agreement ("IAA").[3] (Unless otherwise noted, subsequent references in this Order to the IAA relate to Modification No. 1.) The FERC accepted Modification No. 1 by letter on August 30, 1996, and Kentucky Power testified that it received the past emission allowance sales proceeds in September or October of 1996.[4]

The Commission's treatment of the emission allowance sales proceeds in the May 27, 1997 Order is not retroactive rate-making. Instead, it reflects the proper matching of emission allowance costs Kentucky Power incurs under the terms of the IAA and the benefits from allowance sales received under that agreement. This treatment is consistent with the Commission's previous decisions in three environmental surcharge proceedings.[5] Furthermore, this rate treatment is consistent with Kentucky Power's

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2 Transcript of Evidence ("T.E."), Vol. II, April 3, 1997, at 159.

3 Response to the Commission's January 13, 1997 Order, Item 21, Attachment, Vol. 2 of 2, "Modification No. 1 to the AEP System Interim Allowance Agreement," June 21, 1996 Transmittal Letter, pages 3 through 5, and Appendix B.

4 T.E., Vol. II, April 3, 1997, at 114-115.

5 As noted on page 23 of the May 27, 1997 Order, *footnote* 50, prior to filing its application for a surcharge, Kentucky Power had not reviewed the Commission's Orders in the three prior environmental surcharge cases.

previous position that the net gain or loss on sales of allowances should be included in the environmental surcharge.[6] Rehearing is denied on this issue.

Kentucky Power's fourth issue is its disagreement with the Commission's decision that the environmental costs should be allocated over all sales revenues, including sales to affiliated companies which are governed by the FERC-approved Interconnection Agreement. Kentucky Power contends that since the majority of its environmental compliance costs are fixed costs associated with power production facilities, the environmental costs should be assigned to its jurisdictional customers because those facilities were installed to provide service to those customers. Kentucky Power claims that the assignment of a portion of its fixed environmental costs to off-system sales would practically guarantee less than full recovery of such costs, which is unfair and confiscatory. Kentucky Power argues that by assigning a portion of the environmental costs to sales to affiliates, the Commission has ensured that those costs cannot be recovered and must be borne by Kentucky Power, knowing that it cannot pass these environmental costs on to its affiliates through the Interconnection Agreement. Kentucky Power also contends that assigning a portion of its environmental costs to off-system sales does serious damage to the off-system sales tracker mechanism and the underlying principles which support it.

The Commission has consistently rejected the argument that since a utility's generating facilities were installed to meet the needs of its jurisdictional customers, all environmental costs should be borne by those customers, even when the utility is also

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[6] Response to the Commission's February 7, 1997 Order, Item 14.

making off-system sales. Kentucky Power has offered nothing new here, but instead has simply repeated arguments which have already been rejected in this proceeding. Rather than not recovering the environmental costs assigned to off-system sales, regardless of whether these sales are to affiliates or non-affiliates, what will happen is that the margins made on the sale will be lower. As was noted in the May 27, 1997 Order, while claiming that the off-system sales tracker mechanism will be seriously damaged by this allocation methodology, at no time did Kentucky Power offer any analysis to support this claim. Rehearing is denied.

The fifth issue raised by Kentucky Power is an objection to using a base/current approach when calculating the surcharge. Kentucky Power contends that the use of the base/current approach essentially opens up base rates and disallows recovery for any remaining costs for retired environmental projects. Kentucky Power argues that KRS 278.183 does not disallow recovery for retired facilities, and in fact, were it not for the CAAA, retired facilities would not have been retired. Kentucky Power claims that the remaining undepreciated cost of retired environmental facilities is actually a cost of compliance with the CAAA, whose recovery would be allowed under the surcharge statute if not already in the rate base. Kentucky Power also argues that the Commission's base/current approach in fact strands the investment in the retired facilities, even though all the requirements are met for recovery under the statute, and therefore the Commission is in error in requiring its use.

The base/current approach allows for the recognition of the requirement in KRS 278.183 that costs recovered through a surcharge are "not already included in existing rates." Kentucky Power appears to be convinced that it is entitled to recover through base rates the costs of retired environmental facilities, while at the same time recovering through the surcharge costs related to current compliance. The May 27, 1997 Order clearly addressed Kentucky Power's argument when it said,

> As the Commission has clearly stated in two previous Orders, "To require ratepayers to pay a surcharge for the costs of . . . compliance projects while the existing rates include the cost of related plant no longer in service would be unreasonable and a violation of KRS 278.183(2)."[7]

The investment in retired environmental facilities is not stranded. Kentucky Power appears to be arguing that it has been guaranteed the full recovery of those facilities through base rates. This is not the case under traditional rate-making and there is no justification to require ratepayers to now pay for current compliance projects and retired compliance projects. When Kentucky Power files it next general rate case, the impact of any retired assets will be removed from its rate base and operating expenses. No further recovery of the retired assets will be permitted.[8] Rehearing on this issue is denied.

Kentucky Power's final issue concerns the 11.5 percent rate of return authorized for common equity. Kentucky Power notes that its testimony in support of a 12 percent rate of return was not challenged. However, Kentucky Power states that it is raising this issue only to preserve its rights to argue for the 12 percent rate in the event the

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7 May 27, 1997 Order at 23.

8 The only exception would be if the retirement were found to be extraordinary. However, even then, the circumstances of the retirement would have to be examined to determine whether some addition recovery should be permitted.

intervenors challenged that authorized 11.5 percent rate was too high. Kentucky Power indicates that it does not plan to pursue the rate of return issue absent a contrary challenge by an intervenor. As no intervenor has raised a challenge to the authorized rate of return on equity, and in light of Kentucky Power's statements, rehearing is denied.

KIUC seeks rehearing on two issues. In its first issue, KIUC notes that when the Commission determined the weighted cost of capital for Kentucky Power, short-term debt was omitted from the capital structure. KIUC states that short-term debt is a routine component of Kentucky Power's capital structure and the surcharge exhibits submitted by Kentucky Power utilized a capital structure which included short-term debt. KIUC proposes that the Commission utilize information from Kentucky Power's 1996 Securities and Exchange Commission ("SEC") Form 10-K and revise the calculation of the weighted cost of capital authorized. KIUC provided excepts from the 1996 SEC Form 10-K relating to the capital structure components and interest rates with its application for rehearing.

The Commission agrees with KIUC that short-term debt should be included in the capital structure and the calculation of the weighted cost of capital. However, the Commission cannot perform this recalculation at this time because the necessary information is not contained in the record of this proceeding. Therefore, the Commission will grant rehearing to the extent necessary to have the necessary information submitted into the record. Kentucky Power will be required to provide the balances for short-term debt, long-term debt, and common equity as well as the calculation of the blended interest rates applicable to the short-term and long-term debt, as of December 31, 1996.

The other issue raised by KIUC is to require interest on the emission allowance sales proceeds that are to be included as offsets when calculating Kentucky Power's surcharge during the first 12 surcharge filings. KIUC notes that the Commission allowed Kentucky Power to include its emission allowance inventory in its rate base and allowed Kentucky Power to earn a return on its inventory. KIUC argues that the unamortized emission allowance sales proceeds should be treated in a consistent manner, and proposes that the unamortized balance should be included as a rate base reduction, with the return on the unamortized balance reflected as a reduction to the surcharge revenue requirement. KIUC also proposes that until the amortization is completed, interest should be added to the unamortized balance, at a rate equal to the full and grossed-up rate of return authorized by the Commission. KIUC contends that its proposed treatment is consistent with the Commission's decisions in the Big Rivers Electric Corporation ("Big Rivers") environmental surcharge case.

The Commission is not persuaded by KIUC's arguments. The Commission believes the treatment prescribed for the emission allowance sales proceeds is reasonable and consistent. With the exception of the proceeds received from the 1996 Environmental Protection Agency ("EPA") allowance auction sale, a carrying charge was included with all other allowance sale proceeds as required by the IAA. Based on information included with Modification No. 1, Kentucky Power's share of those carrying charges total $198,643.[9]

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[9] Response to the Commission's January 13, 1997 Order, Item 21, Attachment, Vol. 2 of 2, Modification No. 1 to IAA, Appendix B, page 2 of 2. The $198,643 reflects $12,000 of carrying charges related to the 1993 through 1995 EPA auction

The circumstances surrounding the allowance sale proceeds for Kentucky Power and Big Rivers are not similar. In 1993, Big Rivers sold emission allowances and received $22.9 million in allowance sale proceeds. Those proceeds were used to finance the scrubber constructed at the Henderson Municipal Power and Light Station No. 2. Recognizing this financing arrangement, the Commission required Big Rivers to amortize the sale proceeds over the vintage years of the allowances sold, which ran through 1999. In addition, Big Rivers was required to deduct the unamortized balance of the proceeds from the environmental assets included in the surcharge, thus not allowing a return on the scrubber investment financed through the allowance sale. The Commission required Big Rivers to accrue a carrying charge on the unamortized balance, beginning on the date of the Commission's Order authorizing the surcharge.[10] Big Rivers had received the proceeds in 1993 and would not complete the amortization until 1999. The carrying charge was added to compensate ratepayers due to the period of time they would be waiting to receive the full benefit of the allowance sale proceeds.

The record in this case does not indicate that Kentucky Power financed any environmental compliance investments with the emission allowance sales proceeds. Therefore, it is not appropriate to include the unamortized balance of the sales proceeds

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proceeds plus 6.456 percent of $3,084,000 in carrying charges related to a 1994 AEP sale of allowances, reduced by 6.456 percent of $193,000 in carrying charges related to an AEP 1994 EPA auction purchase.

10 Case No. 94-032, Application of Big Rivers Electric Corporation to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements of the Clean Air Act, final Order dated August 31, 1994, at 20.

as a rate base reduction nor allow a return on the unamortized balance. If the proceeds are returned to ratepayers as is currently envisioned, starting in 1997 and ending in 1998, the Commission is not persuaded that interest should be required on the unamortized balance. However, if Kentucky Power does not begin to credit the proceeds of its emission allowance sales to ratepayers as envisioned, the issue of accruing interest can be revisited. Rehearing is denied on this issue.

The AG posed a series of questions in his application for rehearing, dealing primarily with issues of federal preemption and what costs are eligible for recovery under KRS 278.183. The AG's first question asks whether the FERC acceptance letters of the IAAs "triggered" federal preemption considerations. The AG contends that the May 27, 1997 Order did not determine whether the acceptance letters were in fact FERC rate orders. The AG also contends that the acceptance letters were not clear as to whether FERC had acted or not.

In response, the Commission answers in the affirmative. The Commission would point out that it was not necessary to determine whether the FERC acceptance letters were FERC rate orders. There is no language in the May 27, 1997 Order equating the two. It should also be clear from the plain language in the acceptance letters that FERC had acted. As was noted in the May 27, 1997 Order, the letters represented a final administrative action, terminated a FERC docket, and the acceptance of the IAA was by direction of the FERC.

The AG questioned whether there was any evidence that Kentucky Power had attempted to mitigate the impact of emission allowance expenses it incurred under the terms of the IAA. The AG states that the Commission took note of the mitigation issue in the May 27, 1997 Order but did not make a finding. The AG claims that Kentucky Power is a capacity surplus company with Phase I compliant generation, and as a Phase I compliant company has no current need for emission allowances. The AG argues that Kentucky Power is simply holding the banked emissions allowances without reference to need, and is making no effort to sell or dispose of the allowances in some fashion which would mitigate the impact of the IAA on its ratepayers. The AG contends that the mitigation issue is open to examination and should be examined.

The Commission notes that the AG has misstated the May 27, 1997 Order, where it was clearly stated,

> The record in this case contains no credible evidence that Kentucky Power acted imprudently or otherwise failed to pursue an opportunity to mitigate the costs incurred pursuant to FERC agreements. Neither the AG nor KIUC submitted any evidence that Kentucky Power acted imprudently; rather they allege that there is insufficient evidence to determine the reasonableness of Kentucky Power's actions.[11]

The Commission notes that Kentucky Power's capacity status within the AEP System is governed by the Interconnection Agreement. Under the terms of that agreement, Kentucky Power currently is a capacity deficit, not surplus, company. Further, under the terms of the IAA, the purchase or sale of emission allowances among AEP operating companies is not determined on the basis of the individual operating companies' need for allowances. Thus, Kentucky Power's sale or disposition of allowances would not necessarily mitigate its allowance inventory costs. In any event, however, the issue of

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[11] May 27, 1997 Order at 17.

mitigation was open to investigation during this proceeding and no one introduced any evidence on the issue.

The AG's third question asks whether the doctrine of federal preemption mandates the pass through under KRS 278.183 of rates approved by FERC, where the costs fail to meet the requirements of the surcharge and are recoverable by filing a general rate case. The AG argues that even if federal preemption requires a cost to be considered reasonable, the Commission has the authority to exclude such cost from the surcharge if it has not been shown to be cost effective. In these situations, the AG claims, the utility is not harmed since the cost can be recovered through a general rate case.

The Commission finds that the AG has offered no authority to support this contention. Kentucky Power's scrubber costs under the Interconnection Agreement and emission allowance costs under the IAA are legitimate compliance activities eligible for surcharge recovery. The AG's challenge is that these compliance activities are not cost effective. Thus, the implied premise of this challenge is that Kentucky Power had a choice to not pay for the scrubber and emission allowance costs and pursue a lower cost alternative.

The doctrine of federal preemption precludes a state commission from examining the reasonableness of a cost which has been accepted by the FERC. The basis for this doctrine in this case is that Kentucky Power has no choice but to participate in the Interconnection Agreement and the IAA, and to pay the FERC accepted costs that result from its participation. This absence of choice precludes any finding that the FERC costs are either unreasonable or not cost effective, since the effect of either finding would be an impermissible trapping of costs. Thus, the costs related to these FERC approved agreements, if incurred to meet environmental compliance, must be accepted as both reasonable and cost effective for rate-making purposes.

The AG questions whether a return on the banked emission allowances constitutes a proper item of recovery pursuant to KRS 278.183. The AG argues that KRS 278.183 permits the expedited recovery of current cost of complying with the CAAA and a return on compliance related capital expenditures. The AG claims that Kentucky Power has failed to show that the banked emission allowances are a current cost of complying with the CAAA and that there is no evidence that the banked emission allowances are currently useful to achieve compliance, or that they will be so in the future. The AG states that the statute appears to require current compliance use, or at least a reasonable prospect that the compliance action will be used to achieve compliance at some point in the foreseeable future as a prerequisite for recovery through the surcharge.

The Commission is not persuaded by the AG's arguments. The AG has offered no authority to support his interpretation of KRS 278.183. Under the provisions of the IAA, the AEP System's current cost of compliance with the CAAA is shared among all of the operating companies, regardless of the individual company's compliance status. These AEP System costs that are allocated to Kentucky Power through the IAA, which are considered reasonable and cost effective under the federal preemption doctrine, do constitute Kentucky Power's current costs of compliance. KRS 278.183 clearly provides that the utility is entitled to the current recovery of its costs of compliance through the surcharge.

The AG's final question asks whether the Gavin scrubber costs can be subject to recovery by way of KRS 278.183 in absence of evidence that Kentucky Power receives power from Gavin. The AG argues that, if Kentucky Power does not receive any power from Gavin, the Gavin scrubber costs are not current costs of compliance eligible for surcharge recovery.

The Commission notes that such a matching as described by the AG is not required by the environmental surcharge statute. The scrubber costs must be accepted as reasonable and cost effective under the federal preemption doctrine since the costs are passed through the Interconnection Agreement. These costs are part of Kentucky Power's costs of compliance, and the current recovery of such costs is permitted under KRS 278.183.

The Commission is not persuaded that any of the questions raised by the AG warrant the granting of rehearing. Therefore, rehearing is denied on all five questions.

IT IS THEREFORE ORDERED that:

1. The applications for rehearing filed by Kentucky Power and the AG are denied.

2. The application for rehearing filed by KIUC on the issue of accruing interest on emission allowance sales proceeds is denied.

3. The application for rehearing filed by KIUC on the issue of including short-term debt in the capital structure is granted.

4. Within 10 days of this Order, Kentucky Power shall file the account balances for short-term debt, long-term debt, and common equity as well as the calculations showing the determination of the blended interest rates for short-term and long-term debt. This information shall be as of December 31, 1996. If the information filed by Kentucky Power does not agree with the financial information contained in its 1996 FERC Form No. 1, on file with the Commission, Kentucky Power shall provide a reconciliation of the information. Kentucky Power shall file an original and 10 copies of the requested information, with a copy provided to each party of record.

5. Any request for a hearing on the determination of the amount and cost of Kentucky Power's short-term debt shall be filed within 15 days of the date of this Order.

Done at Frankfort, Kentucky, this 8th day of July, 1997.

PUBLIC SERVICE COMMISSION

Linda K Breathitt
Chairman

Vice Chairman

B J Helton
Commissioner

ATTEST:

Don Mills
Executive Director